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SUBJECT: CHAVEZ'S WAY AHEAD: WORDS TO DEEDS

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Classified By: Robert Downes, Political Counselor,
for Reason 1.4(b).

11. (C) SUMMARY In the wake of President Chavez's January 10 swearing-in, Post offers the following preliminary assessment of how Chavez intends to unfold his "socialist" project in coming months. Chavez has been foreshadowing most of these moves, and we take him at his word. Untethered by voices of restraint or even reason, Chavez is poised to accrue even more personal power, seek to remain in power "legally" indefinitely, put additional pressure on civil society, the media, and the Catholic Church, politicize and expand the armed forces, and increase state controls in the Venezuelan economy. We also anticipate that he will redouble his efforts to position himself internationally as an anti-American leader. With virtually complete control over the levers of power, the only remaining question is how fast he will move. END SUMMARY

THE POLITICAL SPECTRUM

12. (C) Consolidation: President Chavez is pressing ahead with the "socialist" phase of his Bolivarian revolution. He is already moving quickly to consolidate his base in order to do so. New Vice President Jorge Rodriguez, an unconditional and hard-line loyalist, can be expected to implement and inflame, rather than temper, Chavez's plans. Chavez's 27-member cabinet is also stacked with unquestioning apparatchiks; anyone with the position or inclination to challenge the Bolivarian gentleman on policy is long gone. Presidential brother and new Education Minister Adan Chavez may be the only minister capable of influencing Chavez but is widely perceived to be even more ideologically driven than the Venezuelan president. Moreover, Chavez is determined to create a single pro-government party, the United Socialist Party of Venezuela, over the objections of the bodies of some smaller pro-Chavez parties, some of which are "Chavez-light," further attenuating the political spectrum.

13. (C) Constitutional Change: Chavez is also actively pursuing "profound" changes to the 1999 Constitution. Chavez has named National Assembly President Cilia Flores to head a parliamentary commission on constitutional change. Chavez will steer the direction of this commission and will bless its findings with his executive seal of approval, before submitting any proposal of constitutional change to a public referendum (after National Assembly rubber stamping). He is

seeking first and foremost the elimination of presidential term limits. Chavez also advocates supplanting existing structures of state and local governments by transferring more authority and resources to "communal councils." The communal model - with "leaders" selected from Chavista-controlled organizations - is highly attractive to the competition-averse Chavez. During his inauguration speech, the Venezuelan president also expressed strong interest in creating utopian "federal cities and territories" and redrawing state and local government districts. Chavez may also seek the authority to eliminate elections and rather simply appoint governors and other local authorities, thus concentrating even more power in his own hands and denying the opposition the opportunity to gain - or even compete for - political space (municipal and gubernatorial elections are slated for 2008).

14. (C) Rule by Decree: Prior to swearing Chavez in, Flores pledged that the legislature will pass an omnibus enabling act that will allow Chavez simply to promulgate "revolutionary decrees" which would have the force of law in a wide variety of areas. Clearly, even though the National Assembly is 100% Chavista, Chavez wants even more flexibility - he wants to write the laws and sign them himself, with no other intervention. Chavez has already stated his intention to use this authority to nationalize privatized "strategic" industries and rewrite the commercial code. He is also likely to tap such authority to pass a number of controversial bills that languished in the National Assembly prior to the December 3 presidential election. Among the government proposals awaiting approval are a bill that would regulate and circumscribe international cooperation with NGOs, an ideologically-loaded education bill, and a police reform proposal that would enable the central government to exercise considerable control over state and local police forces.

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15. (C) Foreign Policy: While Chavez has outlined an ambitious domestic agenda, he shows every sign of retaining his aspirations to be a major) and anti-American - actor on the world stage. With a loyal caretaker in VP Rodriguez and a &yes8 cabinet in place, Chavez may feel even more secure to focus on foreign affairs. Although he failed to secure a UNSC seat for Venezuela in 2006, Chavez continues to try to position himself as both a regional and world leader. Moreover, another GRULAC seat on the Security Council is coming open this fall, and Chavez is likely to challenge Costa Rica for the spot. He will likely continue his intensive travel schedule and host international leaders; Iranian President Ahmedinejad is scheduled for a visit to Venezuela starting January 13 (his second in the last five months). FM Maduro has hinted that Chavez may also be tempted to withdraw from the OAS, perhaps after proposing (and presumably failing) to get Cuba re-seated. Another pretext might surround an effort (again, which presumably would fail) to sack Secretary General Insulza. Leaving the OAS has another attraction: Venezuela faces a number of actions against it at the CIDH, which it would rather not deal with. If Chavez could convince even one other nation (Bolivia?) to follow Venezuela out of the OAS, he would argue, echoing Castro circa 1965, that the OAS had become a U.S. "ministry for the colonies."

MILITARY/DEFENSE

16. (C) In early January 2007, President Chavez announced a 5-year program to train/indoctrinate the Venezuelan military to make it more "revolutionary." Chavez also announced (and already effectively implemented) the changing of the name of the armed forces to the Bolivarian Armed Forces. The BRV continues to indoctrinate young recruits and new officers and force out or sideline more senior officers who do not agree

with the government's direction. In early 2007, the Venezuelan military plans to recruit 57,000 new military personnel.

¶17. (C) Earlier reporting has outlined arms purchases including 100,000 Russian rifles, Russian cargo and attack helicopters and Sukhoi fighter aircraft, as well as the intent to procure cargo aircraft and submarines. As there remains a significant disconnect between the emerging asymmetric doctrine of the BRV and these arms purchases, this arms build up will not upset the balance of power in northern South America unless training and logistics greatly improve. A significant number of rifles falling into the wrong hands could pose problems inside Colombia and along the Colombian/Venezuelan border.

¶18. (C) The Venezuelan military will probably continue to reach out to vulnerable governments to try to influence them. To date, the home-building, runway improvement and road-building the BRV's military has conducted in the region has been rather benign. Whether the Venezuelan military makes any inroads in Nicaragua will be a bellwether of Chavez's future military plans outside of Venezuela.

¶19. (C) The military will continue to be a major BRV vehicle for the provision of social services. Although flush with cash, the BRV still has difficulty in executing its social programs (or "misiones"). The military continues to represent a resource for the BRV which, through its size, structure, planning ability, and resources, will continue to be a major vehicle for administration of some social services.

¶10. (C) Chavez will continue to expand national security forces to dilute the potential power of the uniformed military, consolidating and improving upon the new reserve and militia forces which fall outside the Minister of Defense's chain of command. Additionally, the BRV will displace regional police forces with a National Police force, which will take armed power away from local governments and consolidate it under the federal executive. The National Police will represent yet another counterweight to the uniformed armed forces.

MEDIA/CHURCH/CIVIL SOCIETY

¶11. (C) The media, civil society, and the Church are the
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three remaining pillars of opposition to Chavez. In his inaugural address, Chavez made clear he intends to vigorously go after both in 2007. Civil society is also under increasing government pressure.

¶12. (C) Media: After years of threatening and pressuring the independent media in Venezuela, 2007 is shaping up to be the year that Chavez takes direct action. The imminent closure of RCTV sets an example for other media of what to expect if they do not fall into line. Cautious (or cowed) stations - radio and TV - wishing to stay in business are already pulling outspoken commentators. RCTV is an opportune victim because of its nationwide audience as a free-to-air channel, Chavez's personal hatred of the owner, and because the licensing issue gives Chavez a legal facade. Venevision, which has toed a fairly pro-government line, could be next on the chopping block. We would not be surprised to see the BRV put more pressure on Globovision, as well. Ominously, Andres Izarra, President of BRV's international cable station Telesur, recently said that the BRV sought "media hegemony" in Venezuela.

¶13. (C) Chavez's announcement of his intention to re-nationalize CANTV, the telephone company, once implemented, could well increase his ability to control the

media and public opinion. CANTV is also the major internet provider and owns a substantial portion of the fiber optic cables and satellite feeds on which the media and others rely.

¶14. (C) Church: The Church appears to be taking a more defined stance in opposition to Chavez's ever-increasing authoritarianism, although it has tried to maintain a civil dialogue on these important matters. Chavez, typically, is taking an offensive stance, as demonstrated by his pre-emptive strike during his inaugural address. The Church's strong statement on the RCTV issue could foreshadow more vocal criticism from the Church. Chavez's equally strong, if not stronger, condemnation of the Church and high-ranking individuals within the Church's hierarchy confirms that Chavez will not shy from a confrontation, should the Church continue to challenge him. The proposed educational reform, once passed under Chavez's new legislative carte blanche, will deeply restrict the Church's ability to offer religious education to the country's youth.

¶15. (C) Civil Society: The likely approval of the Law of International Cooperation - perhaps as an undebated executive order - does not bode well for NGOs in Venezuela. The law will make existence difficult for many organizations and will greatly complicate USAID's work. There will likely be attacks (judicial, verbal, and/or physical) on individuals and organizations. USAID continues to have a critical role to play in supporting civil society: financially, technically, and boosting and supporting morale - all with the end of demonstrating the civil society is not in this struggle alone. It would be helpful in this context to be able to maintain, if not expand, USAID Caracas' current level of activity.

ECONOMIC AND COMMERCIAL INTERESTS

¶16. (C) Chavez's economic vision of "21st Century Socialism" includes placing "strategic" sectors or companies (e.g. oil, telecommunications, and electricity) under BRV control, reforming the country's commercial code which regulates economic activity, and stripping the Central Bank of its constitutional autonomy. While the timing of each step is still uncertain, the objectives are quite clear.

¶17. (C) What is also clear is that we are looking at even greater intrusion by the BRV into the economic life of the country. We expect the private sector will have even greater burdens placed upon it in the forms of expanded price controls and increased social obligations (e.g., greater directed lending requirements imposed on banks), and other measures. The fact that Chavez boasted that the 2007 enabling legislation would go beyond the 2001 Enabling Law is an indication of what is to come for the private sector. (Note: The 2001 enabling law was quite extensive and specific and the 49 laws enacted under its authority engendered a general strike in late 2001 that contributed to the events of April 2002. End Note.)

¶18. (C) We do not expect, however, that these measures will

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have a significant immediate impact on U.S. exports to Venezuela, which have benefited significantly from the current consumption-led boom fueled by the oil windfall. Chavez does not like Venezuela's dependence on U.S. imports (roughly 30 percent of total Venezuelan imports), but for now there is not much he can do about it short of restricting CADIVI (the foreign exchange authority) authorizations, which would be damaging to Venezuela. It is not unreasonable, however, to expect that Chavez would restrict CADIVI authorizations for some U.S. imports and slow down further dividend and royalty repatriations by U.S. companies.

¶19. (C) Over the medium-term, we expect Chavez to heavily

promote import-substitution schemes as we believe he thinks that Venezuelan sovereignty depends, in part, on its independence from exports (especially those from the United States). New private foreign investment into Venezuela was already very low, and these newly-announced measures will hurt any new investment.

¶20. (C) Nationalizations: Although the BRV has not yet defined the mechanism to go forward with the nationalizations, senior BRV officials have stated publicly and subsequent to Chavez's initial announcement that the companies will be compensated and the process carried out legally. Minister of Finance Cabezas said during a January 11 interview that a "nationalization law" will probably be included as part of the package of special powers the National Assembly would soon be authorizing Chavez (see para 4), and Cabezas added that the decision to nationalize certain companies was "irreversible." He clarified that "for now," the BRV was only contemplating the telecommunications and electrical sectors and mentioned CANTV and Electricidad de Caracas. Verizon Communications has a 28.5 percent stake in CANTV and AES Corporation controls Electricidad de Caracas. There are other U.S. companies in the electricity sector that could potentially be affected such as CMS Energy and PSEG, but they are keeping a low profile and might not be disappointed if the BRV compensated them fairly for their assets. With significant assets of its own in the United States, we expect the BRV would not consider not compensating U.S. investors, at least not at the moment. The question of fair compensation remains open.

¶21. (C) Oil and Gas: The BRV is expected to speed up negotiations to migrate the heavy-oil strategic associations to PDVSA controlled joint ventures. The sticking point will be compensation for lost value. We do not rule out some form of expropriation if companies balk at migrating their associations. It is not clear if international oil companies (IOCs) will invoke their arbitration rights in such a situation. Separately, oil production should continue to decline but it is not clear at what rate. Assuming the strategic associations migrate, the 40-plus percent of production (former operating service agreement and strategic association fields) that was run efficiently by the private sector will be run by inefficient joint ventures subject to the BRV's political agenda. The new joint ventures will be under tremendous pressure to engage in social development projects at the expense of operations. We fully expect the gas law to be amended to significantly reduce the role of the private sector. We also expect the new gas law to be applied retroactively to existing gas investments. We do not believe that IOCs or state oil companies are willing to make major investments in Venezuela given the current legal and operating environments.

¶22. (C) For now, though, the oil windfall and the mountains of cash Chavez is controlling will allow him to go boldly forward. He will keep the fiscal spending spigots turned on) especially now to keep the public placated) even as he moves forward with retrograde measures. However, the distortions Chavez is creating will continue to manifest and magnify themselves throughout the economy in the form of inflation, shortages, and other effects, and the chickens will sooner or later come home to roost.

CHAVEZ UNTETHERED

¶23. (C) A final note on Chavez's current mental state: for all of the past eight years, Chavez has had someone who can pull him aside and tell him the truth, even if it hurt. Whether Luis Miquilena, Fidel Castro, Jose Vicente Rangel, or others, Chavez had a respected, loyal comrade who could talk

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frankly to him if he were going astray, and potentially

affect his behavior. There is no one left to serve that role. It is a chancy time for him to be without a mature advisor. He sees himself as triumphant in every sector, over the political class, in the economic sphere, and even internationally. Even obvious missteps -- like comments that caused the stock market and the Bolivar to plummet, his disastrous performance at the UNGA, and his vulgar attack on SecGen Insulza -- are recast in his mind as victories. An untethered Chavez presents a rather brittle situation, especially as he appears utterly committed to ramming home the radical agenda detailed above.

WHITAKER